



IN REPLY REFER TO

**DEFENSE CONTRACT AUDIT AGENCY**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

PFC 730.5.22

2 July 1998  
98-PFC-101(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT: Audit Guidance on Competitions Between Public Sector Maintenance Depots and Private Sector Commercial Firms as a Result of the 1995 Base Realignment and Closure (BRAC) Decisions**

On 3 February 1998 the Under Secretary of Defense (Acquisition and Technology) [USD(A&T)] issued DoD policy guidance concerning public-private competitions for depot-level maintenance and repair workloads currently being performed at facilities closed or realigned as a result of BRAC 95 decisions (see Enclosure 1). Although the DoD policy guidance is generally directed to the Military Departments, it does address areas of DCAA responsibility. The areas of DCAA responsibility are the same as those previously outlined in MRD 97-PFC-181(R) dated 25 November 1997 (see Enclosure 2), which addressed DoD policy guidance issued by the USD(A&T) on 2 May 1997 concerning public-private competitions for depot-level workloads, other than those affected by BRAC 95 decisions. Therefore, the audit guidance for performing audits of accounting and estimating systems at public sector maintenance depots contained in MRD 97-PFC-181(R) should be utilized when clarifying the DCAA responsibilities contained in the DoD policy guidance issued by the USD(A&T) on 2 May 1997 and 3 February 1998.

If you have any questions regarding this memorandum, please contact Jeff Miller, Program Manager; Pricing, Finance, and Claims Division at (703) 767-3261.

/s/Robert DiMucci

for Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosures - 2

1. USD(A&T) Memorandum dated 3 February 1998
2. MRD 97-PFC-181(R) dated 25 November 1997

DISTRIBUTION: C

**THE UNDER SECRETARY OF DEFENSE**  
3010 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-3010

ACQUISITION AND  
TECHNOLOGY

**Feb 03 1998**

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS**  
**DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY**  
**DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)**

**SUBJECT: Public-Private Competition for Depot-Level Maintenance and Repair Workloads**  
**Currently Being Performed at Facilities Closed or Realigned as a Result of BRAC 95**  
**Decisions**

Section 359 of the National Defense Authorization Act establishes certain requirements that must be satisfied by the Department when redistributing depot-level maintenance and repair workloads being performed at facilities closed or realigned as a result of BRAC 95 decisions. Various workloads that are not being consolidated to other military installations, or are not already under contract as of the date of enactment of the Act, must be subjected to public versus private competitions (PPC). The attachment provides policy guidance as required by subsection 359(b) (1) of the Act on conducting those PPCs.

The policy contained in this memorandum is effective immediately.

/signed/  
J. S. Gansler

Attachment: As stated

## **Depot Maintenance Public-Private Competition Guidance**

### **Policy**

It is DoD policy to maintain adequate organic core depot maintenance capabilities to provide an effective and timely response to surge demands and sustain institutional expertise. Such core capabilities ensure a ready and controlled source of technical competence to sustain day-to-day readiness and meet the Joint Chiefs of Staff's contingency scenarios.

Our goal is to obtain the best value for our depot maintenance dollars while still satisfying core depot maintenance capability requirements. Subjecting depot maintenance workloads that are not required to sustain core capabilities to the forces of competition can lower costs and improve readiness, irrespective of whether the outcome is to outsource. DoD depot-level maintenance activities shall be eligible to participate in public-private competitions (PPCs) for depot-level maintenance and repair workload.

### **PPC Workload Determination**

This guidance covers depot-level maintenance and repair workloads that were performed as of January 1, 1997 at any military installation that was approved in 1995 for closure or realignment under the Defense Base Closure and Realignment Act of 1990.

This guidance does not apply with respect to a depot-level maintenance and repair workload that is to be consolidated to another military installation (other than a closed or realigned military installation) as a result of a base closure or realignment action or a decision made by the Secretary concerned or the Defense Depot Maintenance Council, workloads necessary to maintain a core logistics capability, or any contract originally entered into before the date of the enactment of the National Defense Authorization Act for Fiscal Year 1998 (November 18, 1997).

Any existing depot-level maintenance and repair workload, currently being accomplished in a facility being closed or realigned as a result of a BRAC 95 decision, that has been designated as unnecessary to sustain core capabilities, shall be considered to be eligible for performance by either organic depots or the private sector.

### **Contracts for Multiple Workloads**

A solicitation may be issued for a single contract for the performance of multiple depot-level maintenance and repair workloads only if:

a. The Secretary of Defense, or his designee, determines in writing that the individual workloads cannot as logically and economically be performed without combination by sources that are potentially qualified to submit an offer and to be awarded a contract to perform those individual workloads.

b. The Secretary of Defense, or his designee, submits to Congress a report setting forth the determination together with the reasons for the determination and;

c. The solicitation of offers for the contract is issued more than 60 days after the date on which the Secretary submits the report.

#### Competition Formulation, Proposal Evaluation and Source Selection

A market investigation appropriate to the circumstances, will be conducted prior to finalization of the solicitation. Commercial practices will be used when specifying work content, wherever practical.

Each Military Department seeking to compete workloads from facilities closing or realigning as a result of a BRAC 95 decision shall issue Source Selection guidelines that, as a minimum, ensure:

a. The source selection process used in the case where the solicitation permits the consideration of offers submitted by private sector sources and offers submitted by public sector sources.

b. The Source Selection Authority does not have direct management involvement with any competing public depots.

c. The contracting organization has an "arms length" relationship with all competing depots. Government communications regarding work requirement, or bearing on the competitive process, are shared equally with private and public offerors.

d. Customers (i.e., user organizations) are given ample opportunity to participate or contribute to, as appropriate, source selection considerations.

e. Section 1091 of the Federal Acquisition Streamlining Act (P.L. 103-355) amended sections 2 and 6 of the Office of Federal Procurement Policy Act to identify past performance as one of the relevant factors to be considered in awarding a contract. The Under Secretary of Defense (Acquisition and Technology) issued implementing guidance on the utilization of Past Performance Information (PPI) by memorandum on November 20, 1997. The Military Departments shall adhere to that guidance. Effective February 1, 1998 an assessment of PPI shall be a factor for award.

f. Competitions shall be conducted so as to attain maximal cost comparability in proposals from offerors. Cost elements specified in the March 1996, Office of Management and Budget Circular A-76 Revised Supplemental Handbook will be considered in PPC evaluations. Cost evaluation elements specified in USD(A&T) memorandum of May 2, 1997 shall also be considered.

g. Each Military Department seeking to compete workloads from facilities closing or realigning as a result of a BRAC 95 decision shall establish cost comparability procedures and techniques to ensure cost comparability between public sector and private sector sources.

h. Non-recurring costs associated with changing the source of repair can be a significant evaluation consideration. Therefore, each Military Department seeking to compete workloads from facilities closing or realigning as a result of a BRAC 95 decision shall ensure the development of guidelines regarding the estimation and consideration of transition costs in PPC

i. In the comparison of offers, the source selection process shall take into account the fair market value (or if fair market value cannot be determined, the estimated book value) of any land, plant, or equipment from a military installation that is proposed by a private offeror to be used to meet a specific workload (whether these assets are provided to the offeror by a local redevelopment authority or by any other source approved by an official of the Department of Defense).

j. The total estimated direct and indirect costs that will be incurred by the Department of Defense and the total estimated direct and indirect savings (including overhead) that will be derived by the Department of Defense shall also be taken into account.

k. The cost standards for both public and private bids used to determine the depreciation of facilities and equipment shall, to the maximum extent practicable, provide identical treatment to all public and private sector offerors.

l. Any offeror, whether public or private, may offer to perform the workload at any location or locations selected by the offeror and to team with any other public or private entity to perform that workload at one or more locations.

m. No offeror may be given any preferential consideration for, or in any way be limited to, performing the workload in-place or at any other single location. However, the Military Department conducting the competition would be expected to consider the real differences among bidders in cost or capability to perform the work based on factors that would include the proposed location of the workloads. The consideration of such differences does not constitute "preferential treatment."

## Cost Estimation and Accounting

Reliable cost information is crucial to the effective management of Government operations as well as the evaluation of competitions between public and private sector offerors. Furthermore, in order for PPCs to be regarded by both DoD customers and industry competitors as effective, fair means of minimizing costs and choosing repair sources, public and private sector depot maintenance activities must be able to demonstrate that their offers identify accurately the total costs of performing the workload, and that actual costs are charged properly.

Each public sector depot maintenance activity shall have well documented accounting procedures for handling direct and indirect costs. This documentation shall be submitted to the Defense Contract Audit Agency (DCAA) for audit in a format prescribed by DCAA. Amended documentation shall be submitted to DCAA whenever significant changes in accounting methods are implemented. Additionally, each public sector depot maintenance activity shall utilize a cost estimating system that has been audited by DCAA.

Each Military Department seeking to bid on workloads from facilities closing or realigning as a result of a BRAC 95 decision will designate an appropriate authority to resolve inadequate disclosures, and ensure that depot estimating and accounting systems are acceptable to DCAA. The DDMC shall ensure that each Military Department's depot's cost estimation and accounting systems are in compliance in a timely manner.

Each Military Department seeking to compete for workloads from facilities closing or realigning as a result of a BRAC 95 decision shall make provisions for a periodic DCAA evaluation of the bidding maintenance depot's cost estimating and accounting systems. The evaluations shall include an assessment of the accuracy and completeness of incurred costs on depot awards. DCAA will establish the evaluation procedures and determine the frequency of review.

## Resolution of Workload Award Objections

Any public or private entity may object to a solicitation of offers for the performance of any depot-level maintenance and repair workload, or the award or proposed award of any workload pursuant to such a solicitation.

Resolution of private sector objections shall be handled in accordance with the procedures set forth in the Federal Acquisition Regulations and applicable law.

A public sector objection means a written objection by an interested public activity to a solicitation of offers for the acquisition of supplies or services, or a written objection by an interested public activity to a proposed award.

A public sector objection of either the solicitation or award shall initially be lodged, in writing, with the Contracting Officer. The Contracting Officer shall have 15 calendar days to render an opinion. Appeals of the Contracting Officers decision shall be sent within 15 calendar days to the Under Secretary of Defense (Acquisition & Technology) (USD(A&T)) for consideration.

The USD (A&T) shall then designate a qualified individual or entity to review the objection. The review authority shall not be the Source Selection Authority or any individual from the same military department as the Source Selection Authority.

The USD (A&T) shall direct appropriate action to address any defect in the solicitation or award in the event that the objection is sustained.

**DCAA MEMORANDUM FOR REGIONAL DIRECTORS COVER SHEET**  
**AUDIT GUIDANCE/MANAGEMENT MEMORANDUM NO. 97-PFC-181(R)**

Date of MRD: 25 Nov 1997

Subject of MRD : Audit Guidance on Competitions Between Public Sector Maintenance Depots and Private Sector Commercial Firms

**Current Audit Guidance and/or Audit Management Guidance Affected:**

| Paragraph   | CAM | Explanation of Effect on Current Version of CAM |
|-------------|-----|---|
| <u>None</u> |     |   |
|             |     |   |
|             |     |   |
|             |     |   |

**STANDARD AUDIT PROGRAMS**

| Type of Report | Pro Forma Document Name | Step No. | Explanation of Effect on Current Audit Program |
|----------------|-------------------------|----------|--|
|                |                         |          | <u>None</u>                                    |
|                |                         |          |  |

**PRO FORMA AUDIT REPORTS**

| Type of Report | Pro Forma Document Name | Sec/Par. | Explanation of Effect on Current Audit Report |
|----------------|-------------------------|----------|---|
|                |                         |          | <u>None</u>                                   |
|                |                         |          |   |

**MEMORANDUMS FOR REGIONAL DIRECTORS**

| MRD No.              | Date             | Subject/Explanation of Change  |
|----------------------|------------------|--|
| <u>96-PFC-034(R)</u> | <u>22 Mar 96</u> | <u>Audit Guidance on DCAA Audits of Depot Competition Proposals</u>                    |
| <u>96-PFC-146(R)</u> | <u>18 Oct 96</u> | <u>Audit Guidance on DCAA Audits of Public Depot Systems and Competition Proposals</u> |

**INTERNAL CONTROL QUESTIONNAIRE/VULNERABILITY ASSESSMENT PROCEDURES**

| ICQ or VAP | Section & No. | State Control(s) Affected by the Change |
|------------|---------------|---|
|            | <u>None</u>   |   |
|            |               |   |

**DCAA PAMPHLETS/REGULATIONS/INSTRUCTIONS**

| DCAAP/RI/No. | Date | Page/Sec/Par | Explanation of Effect |
|--------------|------|--------------|-----------------------|
|              |      |              | <u>None</u>           |
|              |      |              |                       |

**PROGRAM OBJECTIVE DOCUMENT/FMIS USER MANUAL**

| POD/Man | Page/Sec/Par | Explanation of Effect |
|---------|--------------|-----------------------|
|         |              | <u>None</u>           |
|         |              |                       |





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**DEFENSE CONTRACT AUDIT AGENCY**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

PFC 730.5.22

25 November 1997  
97-PFC-181(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Competitions Between Public Sector Maintenance Depots and Private Sector Commercial Firms

This memorandum supplements audit guidance on depot maintenance contained in MRD 96-PFC-034(R) dated 22 March 1996 and MRD 96-PFC-146(R) dated 18 October 1996. The Under Secretary of Defense (Acquisition and Technology) issued DoD policy guidance governing competitions between public sector maintenance depots and private sector commercial firms (see enclosure). Though the DoD policy guidance is generally directed to the Military Departments, it does address areas of DCAA responsibility. Therefore, the following audit guidance is a clarification of the DoD policy concerning DCAA responsibilities for performing audits of accounting and estimating systems at public sector maintenance depots. Portions of the enclosed DoD policy guidance are restated below; DCAA guidance follows each portion of the DoD policy guidance.

Page 3, Cost Estimation and Accounting Section, Second Paragraph:

*Each public sector depot maintenance activity shall have well documented accounting procedures for handling direct and indirect costs. This documentation shall be submitted to the Defense Contract Audit Agency for audit in a format prescribed by DCAA. Amended documentation shall be submitted to DCAA whenever significant changes in accounting methods are implemented. Additionally, each public sector depot maintenance activity shall utilize a cost estimating system that has been audited by DCAA.*

DCAA Guidance:

Public sector depot maintenance activities should document their accounting procedures for handling direct and indirect costs on the form Cost Accounting Standards Board Disclosure Statement - 1 (CASB DS-1) and submit it to the DCAA office cognizant of auditing the depot. A revised CASB DS-1 will be forwarded to DCAA for review whenever significant changes in accounting methods are implemented by the public sector depot maintenance activity. Headquarters has advised the Military Departments of our requirement for the submission of the CASB DS-1 to the DCAA office cognizant of auditing the depot. The initial DCAA accounting and estimating system audits of public sector depot maintenance activities will be performed on an as-requested basis. Follow-up audits to assess the status of corrective actions taken since DCAA initial audits will be self-initiated.

Page 4, Cost Estimation and Accounting Section, Third Paragraph:

*Each Military Department will designate an appropriate authority to resolve inadequate disclosures, and ensure that depot estimating and accounting systems are acceptable to DCAA. The*

SUBJECT: Audit Guidance on Competitions Between Public Sector Maintenance Depots and Private Sector Commercial Firms

*DDMC shall ensure that each Military Department's depot's cost estimation and accounting systems are in compliance in a timely manner.*

DCAA Guidance:

Each Military Department will designate an appropriate authority to serve as a focal point for ensuring that their depots' estimating and accounting systems are acceptable to DCAA. The designated authorities and their specific responsibilities have not been determined. When each of the Military Departments designates an appropriate authority and specifies their responsibilities for this newly created position, we will notify the field audit offices.

Page 4, Cost Estimation and Accounting Section, Fourth Paragraph:

*Each Military Department shall make provisions for a periodic DCAA evaluation of its maintenance depot's cost estimating and accounting systems, including an assessment of the accuracy and completeness of incurred costs on depot awards. DCAA will establish the evaluation procedures and determine the frequency of review.*

DCAA Guidance:

A traditional incurred cost audit at public maintenance depots does not make sense for several reasons. First, depots do not submit an incurred cost submission. Second, there is no need to perform audit steps to test for unallowable costs. Instead, we will conduct transaction testing to ensure the depot is complying with disclosed accounting practices. Accounting and estimating system audits will be performed annually at the public maintenance depots. When performing an audit of the depot's accounting system, auditors should verify that the depot's disclosed practices, as contained on the CASB DS-1, are adequate. The audit will test if the depot is in compliance with their disclosed practices in order to ensure that the output of the accounting system is accurate and complete. As part of the audit, selected costs will be traced back to their source documents, not to test for unallowable costs, but to verify the basis of the recorded cost is accurate and complete. After the completion of the annual accounting and estimating system audit, the public maintenance depot will be requested to provide a cost report, showing total costs by major cost element on competitively awarded workloads both year-to-date and cumulatively from award of the workload.

If you have any questions, or if we can be of additional assistance, please call Jeff Miller, Program Manager; Pricing, Finance, and Claims Division at (703) 767-3260.

\Signed\  
Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosure:

USD(A&T) Memorandum dated 2 May 1997

DISTRIBUTION: C

THE UNDER SECRETARY OF DEFENSE  
3010 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-3010

ACQUISITION AND  
TECHNOLOGY

MAY 2, 1997

MEMORANDUM FOR SECRETARIES OF THE MILITARY  
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY  
DEPUTY UNDER SECRETARY OF DEFENSE (LOGISTICS)

SUBJECT: Competition Between Public Sector (Organic) Maintenance Depots and Private Sector Commercial Firms

It is DoD policy to maintain adequate organic core depot maintenance capabilities to provide an effective and timely response to surge demands, ensure competitive capabilities, and sustain institutional expertise. Such core capabilities ensure a ready and controlled source of technical competence to sustain day-to-day readiness and meet the Joint Chiefs of Staff's contingency scenarios.

Our goal is to obtain the best value for our depot maintenance dollars while still satisfying core depot maintenance capability requirements. Subjecting depot maintenance workloads that are not required to sustain core capabilities to the forces of competition can lower costs and improve readiness, irrespective of whether the outcome is to outsource or not. In accordance with 10 USC 2470, DoD depot-level maintenance activities shall be eligible to participate in public-private competitions (PPCs) for depot-level maintenance and repair workload.

The attachment provides policy guidance governing PPCs to which 10 USC 2469 applies. This guidance is effective immediately. The Deputy Under Secretary of Defense (Logistics) will incorporate this guidance into DoD Directive 4151.18. The Military Departments will incorporate this guidance into implementing regulations prior to initiating any PPCs for which this policy applies. The Defense Contract Audit agency will issue supplemental implementing guidance as required.

Paul G. Kaminski

Attachment

cc: Under Secretary of Defense (Comptroller)  
Commander-in-Chief, Special Operations Command  
Directors of Defense Agencies

# Depot Maintenance Public-Private Competition Guidance

## PPC Workload Determination

Only depot-level maintenance and repair workloads not necessary to sustain core capabilities shall be available for public-private competition. These non-core-related workloads will be requantified biennially as an adjunct to the core redetermination process. Any existing workload, currently being accomplished in a DoD organic depot-level maintenance activity, that is redesignated as unnecessary to sustain core capabilities as a result of such requantification shall be considered to be eligible for performance by either organic depots or the private sector<sup>1</sup>.

Eligible newly designated workload shall undergo a market analysis to determine if viable public and private sector sources exist. A formal public-private competition (PPC) will be conducted for any competition-viable workload package valued at \$3 million or more.<sup>2</sup>

Existing eligible not needed to sustain core DoD capabilities shall be reviewed periodically to ascertain if such work; should undergo a PPC. However, such reviews may not occur more frequently than once every five years, or the period of performance on which a previous PPC was evaluated, whichever is the longer period.

Each DoD Component having depot maintenance requirements shall publish specific procedures for conducting a market analysis. These procedures shall provide for continuing market surveillance in order to assess the relevant commercial sector capability.

## Competition Formulation Proposal Evaluation and Source Selection

A market investigation will be conducted prior to finalization of the solicitation. Commercial practices will be used when specifying work content, wherever practical.

Each Military Department shall publish Source Selection guidelines that, as a minimum, ensure:

- Source Selection authority does not have direct management involvement with any competing public depots.
- The contracting organization has an “arms length” relationship with all competing depots.
- Government communications regarding work requirements, or bearing on the competitive process, are shared equally with private and public offerors.

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<sup>1</sup> Subject to percentage limitations on the amount of depot-level workload that may be performed by non-Federal Government employees imposed by 10 USC 2466.

<sup>2</sup> See 10 USC 2469.

- Customers [i.e., user organizations] are given ample opportunity to participate in or contribute to, as appropriate, source selection considerations.
- Procedures provide processes for internal resolution of issues raised by public depots.

Section 1091 of the Federal Acquisition Streamlining Act (P.L. 103-355) amended sections 2 and 6 of the Office of Federal Procurement Policy Act to identify past performance as one of the relevant factors to be considered in awarding a contract. The DDMC shall undertake to establish a past performance data collection and reporting system for public sector depots that is compatible with criteria established in Federal Acquisition Regulation (FAR) subpart 42.15, or that may be established in the Defense FAR Supplement for evaluation of past performance.

Competitions shall be conducted so as to attain maximal cost comparability in proposals from offerors. Cost elements specified in the March 1996, Office of Management and Budget Circular A-76 Revised Supplemental Handbook will be considered in PPC evaluations. At a minimum, the DDMC shall ensure the development of guidelines concerning the treatment of Federal Income Taxes and Cost of Facilities Capital for inclusion in appropriate DoD publications. Until this is accomplished, each Military Department shall prescribe procedures for treatment of these cost elements for use in any forthcoming PPC evaluations.

Non-recurring costs associated with changing the source of repair can be a significant evaluation consideration. Therefore, the DDMC shall ensure the development of guidelines regarding the estimation and consideration of transition costs in PPC evaluations for inclusion in appropriate DoD publications.

#### Cost Estimation and Accounting

Reliable cost information is crucial to the effective management of Government operations as well as the evaluation of competitions between public and private sector offerors. Furthermore, in order for PPCs to be regarded by both DoD customers and industry competitors as an effective, fair, means of minimizing costs, and choosing repair sources, public and private sector depot maintenance activities must be able to demonstrate that their offers identify accurately the total costs of performing the workload, and that actual costs are charged properly .

Each public sector depot maintenance activity shall have well documented accounting procedures for handling direct and indirect costs. This documentation shall be submitted to the Defense Contract Audit Agency (DCAA) for audit in a format prescribed by DCAA. Amended documentation shall be submitted to DCAA whenever significant changes in accounting methods are implemented. Additionally, each public sector depot maintenance activity shall utilize a cost estimating system that has been audited by DCAA.

Each Military Department will designate an appropriate authority to resolve inadequate disclosures, and ensure that depot estimating and accounting systems are acceptable to DCAA. The DDMC shall ensure that each Military Department's depot's cost estimation and accounting systems are in compliance in a timely manner.

Each Military Department shall make provisions for a periodic DCAA evaluation of its maintenance depots' cost estimating and accounting systems, including an assessment of the accuracy and completeness of incurred costs on depot awards. DCAA will establish the evaluation procedures and determine the frequency of review.

Each Military Department shall also continue to improve the reporting of depot maintenance costs and production metrics, especially depot maintenance supported by private sector commercial firms. Chapter 14. *Depot Maintenance Reporting*, in Volume 6, Reporting Policy and Procedures, of DoD 7000.14-R, "DoD Financial Management Regulation," outlines mandatory reporting of all depot maintenance costs and production efforts, regardless of source of support or type of funding. Each Military Department shall ensure compliance with the full range of Chapter 14 visibility and reporting requirements.